

Message Text

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ACTION EA-10

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SUBJECT: POHANG STEEL MILL EXPANSION PLANS

REF: (A) SEOUL 1664 (NOTAL) (B) SEOUL 3154 (NOTAL)

SUMMARY: THIRD PHASE EXPANSION OF POHANG STEEL MILL TO 5.5 MILLION TONS WILL COST IN EXCESS OF \$1.2 BILLION AND MAY POSE SERIOUS FINANCING PROBLEM FOR POHANG AND ROKG. KOREANS STILL SEEKING JAPANESE SUPPLY AND FINANCING OF HEAVY ROLLING MILL BUT ADEQUATE JAPANESE EXIM FINANCING REMAINS DOUBTFUL. END SUMMARY

1. THIS MESSAGE PROVIDES INFORMATION ON KOREAN PLANS FOR EXPANSION OF POHANG STEEL MILL (POSCO) ADDITIONAL TO THAT IN REF A, WHICH REPORTED ROKG MARCH 8 DECISION TO POSTPONE SECOND STEEL MILL PROJECT CONTEMPLATED WITH U.S. STEEL. LATEST WORD ON LATTER PROJECT IS THAT QUESTION WILL BE EXAMINED DURING NEXT 15 MONTHS AS PART OF PLANNING OF FOURTH FIVE-YEAR PLAN, 1977-81.

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2. POHAMB IS PRESENTLY UNDERGOING SECOND PHASE EXPANSION FROM 1.03 TO 2.6 MILLION TONS CAPACITY, DUE TO BE COMPLETED IN JUNE 1976. ANNOUNCED THIRD PHASE EXPANSION SCHEDULED BEGIN JULY 1 AND REACH 5.5 MILLION TONS AT END OF 1978. COSTS WERE ESTIMATED IN 1974 AT \$658 MILLION IN FOREIGN EXCHANGE AND \$520 MILLION IN WON, BUT THESE DEFINITELY EXPECTED ESCALATE.

3. MAJOR NEW THIRD PHASE FACILITY WILL BE 1.1 MILLION TON HEAVY ROLLING MILL FOR SHIPPLATE (PER REF A). JAPANESE ARE STILL SEEKING CONTRACT AND KOREANS ARE REPORTEDLY MOST INTERESTED IN JAPANESE BID BUT ADEQUATE JAPANESE EXIM FINANCING REMAINS DOUBTFUL. AUSTRIAN CONTRACT AND FINANCING REMAINS SECOND POSSIBILITY.

4. POSCO'S EXPORT ORDERS HAVE DRIED UP THIS YEAR AND COMPANY IS BEGINNING TO EXPERIENCE FINANCIAL DIFFICULTIES AFTER PROFITABLE YEAR IN 1974. (SEE REF B RE GENERAL KOREAN STEEL OUTLOOK.) ROKG OFFICE OF SUPPLY PLANS PURCHASE ABOUT \$6 MILLION OF EXCESS POSCO INVENTORIES UNDER SPECIAL COUNTER-CYCLICAL PROGRAM FOR DEPRESSED INDUSTRIES. MAJOR EMERGING QUESTION IS RELATIVE ABILITY OF POSCO AND ROKG TO FINANCE THIRD PHASE DOMESTIC COSTS. SOME DECISION WILL BE NECESSARY BEFORE SUBMISSION OF 1976 BUDGET NEXT OCTOBER. (\$3 MILLION IN 1975 BUDGET EARMARKED FOR SECOND STEEL MILL HAS BEEN SHIFTED TO CHANGWON MACHINERY COMPLEX.)

5. FOURTH PHASE POHANG EXPANSION TENTATIVELY SCHEDULED TO BEGIN IN JULY 1979 AND REACH 8.5 MILLION TONS BY END OF 1982. COSTS WERE ESTIMATED IN 1974 AS \$683 MILLION IN FX AND \$521 MILLION IN WON.
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